

INFORMED BUDGETEER: HAPPY FISCAL NEW YEAR!

A UNIFIED BUDGET SURPLUS: GODOT ARRIVES!

- Chairman Domenici joined other Senate colleagues on September 30th to herald the achievement of the first unified budget surplus since 1969. While final figures on FY1998's surplus will not be available until about October 28, it is likely that the surplus will be about \$70 billion.
- The speed with which the surplus materialized has surprised everyone. As late as January, OMB, CBO and many private forecasters had looked for a FY1998 deficit of nearly \$10 billion.
- What accounts for this quick move into surplus? Surging revenues have played a key role. Adding in September's tally, it appears that FY1998's revenues will total roughly \$1,721 billion — a 9.0 percent increase over FY1997. Strength was most pronounced in individual tax receipts. There is a downside to such strength — taxes now comprise 20.5 percent of GDP, a post-war record.
- The move into surplus has been exceptionally positive for the US economy. While other factors have also been at play, the emerging budget surplus is an important reason why bond yields are now at 30 year lows. These low interest rates have seen home ownership hit record highs and business investment surge over the last several years. Further economic benefits can be expected to accrue if we stay the course of prudent fiscal management.

| FY 1998 Totals vs. FY 1997 Totals | | | | |
|---|--------|--------|---------------|----------|
| (\$ in Billions, FY 1998 numbers are SBC Staff estimates) | | | | |
| | FY1997 | FY1998 | \$ Difference | % Change |
| Revenues | 1,579 | 1,721 | +142 | +9.0 |
| Outlays | 1,601 | 1,650 | +49 | +3.1 |
| Unified Budget | -23 | 71 | +93 | --- |

Y2K: COMPUTATIONAL ERRORS STARTING EARLY?

- How many dollars, with how many zero's behind them is required to fix one zero in the number 2000?
- On September 2, the White House requested \$3.25 billion in contingent emergency funds to solve the Year 2000 computer problem. The President's original FY 1999 Budget submission in February requested \$1.03 billion in Y2K funds, making the President's total request a staggering \$4.28 billion.
- The Bulletin* agrees that solving the Y2K problem is a top priority. However, we are curious why the Administration request to date is over two-and-a-half times their own estimate for the 1999 cost! According to OMB's "6th Quarterly Report: Progress on Year 2000 Conversion" published on August 15, 1998, the estimated Y2K repair cost for 1999 is \$1.654 billion (see table). This estimate "includes the costs of identifying necessary changes, evaluating the cost effectiveness of making those changes, making changes, testing systems, and preparing contingencies for failure recovery."
- The 6th Quarterly Report estimates that expenditures for Y2K have already totaled \$3.3 billion for 1996-1998. These costs have already been funded and absorbed by the Agencies.
- With 1999 costs estimated to be \$1.654 billion, and 2000 costs at \$404 million, total costs remaining to be funded should be \$2.058 billion by the Administration's own numbers.
- So what's going on here? It seems clear the Administration's current emergency request for \$3.25 billion is designed to do the following:

(1) Fund the President's original request in January — that was within the cap — now outside the cap, as emergency spending. This

provides \$1.03 billion more funding for non-Y2K items in the President's Budget.

(2) Fund all the remaining estimated costs of Y2K (\$2.058 billion for 1999 and 2000) as emergency spending.

(3) Keep available another \$1.2 billion of funds (\$3.25 billion minus \$2.058 billion) for the Administration to provide agencies relief for administrative expenses that might be claimed as computer related Y2K costs, whether true or not.

| Year 2000 Cost Estimates By Agency | | | |
|------------------------------------|-------------------|---------|--------------------|
| (\$ in Millions) | | | |
| Agency | Expended FY 96-98 | FY 99 | Total ^A |
| Agriculture | 81.7 | 30.0 | 119.8 |
| Commerce | 50.6 | 32.1 | 89.2 |
| Defense | 1,468.9 | 435.1 | 1,956.3 |
| Education | 25.1 | 7.4 | 33.7 |
| Energy | 114.3 | 68.1 | 201.7 |
| HHS | 184.0 | 325.8 | 509.8 |
| HUD | 28.7 | 25.0 | 59.9 |
| Interior | 13.6 | 21.1 | 35.4 |
| Justice | 37.9 | 19.1 | 59.0 |
| Labor | 21.6 | 18.1 | 48.5 |
| State | 112.9 | 47.9 | 167.6 |
| Transportation | 125.6 | 74.9 | 213.0 |
| Treasury | 801.0 | 407.9 | 1,470.1 |
| VA | 96.0 | 93.0 | 200.0 |
| AID | 22.4 | 13.7 | 39.3 |
| EPA | 19.1 | 6.1 | 26.2 |
| FEMA | 11.2 | 0.9 | 12.6 |
| GSA | 9.7 | 4.2 | 13.9 |
| NASA | 34.2 | 11.2 | 46.9 |
| NRC | 6.4 | 3.9 | 10.9 |
| NSF | 1.3 | 0.1 | 1.4 |
| OPM | 5.3 | 0.8 | 6.4 |
| SBA | 7.7 | 2.4 | 10.7 |
| SSA | 27.7 | 5.0 | 33.2 |
| TOTAL COST | 3,306.9 | 1,654.3 | 5,365.5 |

^ATotal is FY 1996-2000, includes 404.2 million cost in 2000. SOURCE: Office of Management & Budget, "6th Quarterly Report, Progress on Year 2000 Conversion", August 15, 1998. Available at <http://ciogov/y2kfq.htm>.

1998 FARM INCOME: UP OR DOWN IN A FARM "CRISIS" YEAR?

- One law Congress can not seem to change -- though it tries from time to time -- the law of supply and demand. U.S. agriculture, despite drought in portions of the Plains and the South, will produce wheat, corn, soybeans, and other crops in 1998 unmatched in history. Crop growing conditions have also been generally favorable in the rest of the world this year producing large foreign supplies.
- But the world economic crisis has slowed global agricultural demand. Result -- Econ 101 students? Yes farm prices and incomes will drop in 1998 compared to the good years of 1996 and 1997, unless government intervenes. Without any government intervention USDA economists estimate that net farm income will fall about \$7.3 billion between 1997 and 1998, down 17%.
- But government has and does plan to intervene. Result, amazing as it might seem, once government finishes its harvest this year, total government payments to farmers in 1998 will be nearly \$15 billion. And net farm income, rather than declining from 1997 might actually increase slightly.
- Even the 500-year flood in the Midwest in 1993 did not produce government payments to farmers of this magnitude. Payments that year totaled \$13.4 billion. Clearly there are regions of the country where depressed farm prices and incomes may classify as a crisis -- the Dakota's, the Northern Plains, and the South -- but

in the

aggregate, 1998 US net farm income will not decrease and remain above its average for the 1990's. (See table below.)

| U.S. Farm Income Comparison (1993, 1997, 1998, & 1991-1997; \$ in billions) | | | | |
|--|--------|---------|-----------|-----------|
| | 1993 | 1997 | 1998 | 1991-1997 |
| Payments | Actual | Initial | Forecast | Average |
| Direct government ^A | 13.4 | 7.5 | 7.4 | 6.7 |
| Additional loan deficiency ^B | -- | -- | 3.0-4.0 | -- |
| Advance market transition ^C | -- | -- | 2.8 | -- |
| 1999 Ag Appropriations ^D | -- | -- | 1.6 | -- |
| Total government | 13.4 | 7.5 | 14.8-15.8 | 6.7 |
| payments | 43.6 | 49.8 | 49.9-50.9 | 45.4 |
| Net farm income | | | | |

^AUnder FAIR Act; SOURCE: Economic Research Service, August 1998. ^BUnder FAIR Act Loan rate caps; ERS & CBO September 1998, projection based on current prices. ^CUnder P.L. 105-228, enacted August 1998; amount represents ½ of \$5.6 billion authorized for MTPs in FY 1999. ^DMarket Loss Assistance payments.

WHAT HISTORY MAY MEAN FOR THE SURPLUS

- The President has said that every penny of any surplus should be used to save Social Security first. The Bulletin has already noted that the President didn’t really mean *every* penny, since this year alone he has signed \$5.7 billion in emergency spending that came out of the surplus and is asking to take another \$14.1 billion in emergency spending out of the surplus.
- Every dollar of Federal spending, taxes, deficits, and debt are the result of legislation passed by the Congress and signed into the law by the President. Even so, Congress does not rewrite all the laws each year. Instead, Congress tends to make incremental changes to laws. Since 1969, the last time the budget was balanced, how has Congress’s actions affected taxes, spending, and the deficit?
- The *Bulletin* does not have the answer for the past 29 years, but it may have part of the answer for at least 18. CBO’s annual report includes an analysis that displays why actual revenue, spending, and deficit levels were different that the budget resolution’s levels. The analysis shows the extent to which the difference was due to legislative actions, economic factors, and technical factors.
- The table below compares how actual enacted legislation deviated from the levels set forth in the first year of the budget resolution. On average for the past 18 years, through enactment of legislation, Congress and the President have increase spending by \$11 billion, increased taxes by \$1 billion, and increased the deficit by \$10 billion relative to the levels called for in the budget resolution.
- One needs to be careful with this data because it is a comparison of actual levels relative to the budget resolution’s levels, and not the baseline. Since budget resolutions usually build in significant changes in revenues and outlays, Congress’s failure to implement the budget resolution’s levels can appear to be a tax increase or a spending increase.
- For example, President Clinton’s first budget was reflected in the FY 1994 budget resolution. The table shows that Congress cut taxes by \$1 billion in FY 1994. In fact, Congress enacted the largest tax increase in history, increasing revenues by \$26 billion in FY 1994, but did not raise taxes as much as the budget resolution called for. As a result, relative to the budget resolution, Congress reduced revenues by \$1 billion. Just the opposite occurred in FY 1997. The FY 1997 budget resolution called for a \$17 billion reduction in FY 1997 revenues. Instead, Congress ended up increasing revenues by \$3 billion in FY 1997 by extending airport taxes. Relative to the budget resolution, Congress increased revenues by \$20 billion.

- Even with these caveats, it is still interesting to note that Congress has generally increased taxes, increased spending, and increased the deficit as compared to what it planned to do in the budget resolution. If history is any guide, the budget surplus and debt reduction is threatened by spending increases and not tax cuts.

| Budget Actuals Compared to Budget Resolutions: The Effects of Enacted Legislation (\$ in Billions) | | | |
|--|----------|---------|----------|
| Fiscal Year | Revenues | Outlays | Deficits |
| 1980 | +6 | +20 | -13 |
| 1981 | -4 | +25 | -28 |
| 1982 | +13 | +1 | +12 |
| 1983 | -5 | +18 | -22 |
| 1984 | -14 | +1 | -15 |
| 1985 | * | +23 | -23 |
| 1986 | -1 | +14 | -16 |
| 1987 | +22 | +7 | +15 |
| 1988 | -11 | -2 | -9 |
| 1989 | +1 | +17 | -17 |
| 1990 | -7 | +13 | -20 |
| 1991 | -1 | -19 | +19 |
| 1992 | +3 | +15 | -12 |
| 1993 | +4 | +16 | -12 |
| 1994 | -1 | +10 | -11 |
| 1995 | * | +2 | -2 |
| 1996 | -1 | +25 | -25 |
| 1997 | +20 | +15 | +5 |
| Average | +1 | +11 | -10 |

*Less than \$50 million. SOURCE: CBO, *The Economic & Budget Outlook*, Fiscal Years 1999-2008, Table B-4, pp.94-95.

TOP BUDGET (OR RELATED) VOTES OF FY 1998

- With apologies to Mr. Letterman, the *Bulletin* brings you the votes we feel have, for better or worse, been the significant, interesting or amusing votes of the budget battles this year. (Although it wasn’t much of a budget year!)
- #13 Military Construction Line Item Veto Disapproval Bill . . . H.R. 2631. Passage, upon reconsideration, the objections of the President notwithstanding, Veto Overridden, 78-20.
- #44 Emergency Supplemental Appropriations Bill for fiscal year 1998 S. 1768. McConnell modified amendment No. 2100, as amended. Amendment Agreed to, 84- 16.
- #69 Senate Concurrent Budget Resolution for FY 1999-2003 S.Con. Res. 86. Lautenberg motion to waive the Budget Act for the consideration of his amendment; Motion Rejected, 42-55.
- #84 Senate Concurrent Budget Resolution for FY 1999-2003, and revising the Concurrent Budget Resolution for FY 1998 S.Con. Res. 86. Final passage, as amended. Resolution Agreed to, 57-41.
- #147 Conference report to accompany the Transportation Equity Act for the 21st Century (TEA 21).H.R. 2400. Agreeing to the report. Conference Report Agreed to, 88-5
- #154 National Tobacco Policy and Youth Smoking Reduction Act S. 1415. Kerry motion to table the Gramm modified amendment to the Daschle amendment, as amended, to the instructions to the Gramm motion to recommit the Commerce Committee modified substitute amendment Motion to Table Failed, 48-50
- #162 National Tobacco Policy and Youth Smoking Reduction Act S. 1415. Daschle motion to waive the Budget Act for the consideration of the bill. Motion Rejected, 53-46.
- #187 Conference report to accompany the Internal Revenue Service Restructuring and Reform Act of 1998 . . . H.R. 2676. Chafee motion to table the Murray appeal of the ruling of the Chair against the Murray point of order that Title IX of the conference report

violated Rule XXVIII, paragraph 2. Motion to Table Agreed to, 50- 48.

#189 Conference report to accompany the Internal Revenue Service Restructuring and Reform Act of1998 . . . H.R. 2676. Agreeing to the Report. Conference Report Agreedto, 96-2.